Single Audit Report

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations
Year Ended December 31, 2014
With Reports of Independent Auditors

Ernst & Young LLP

Building a better
working world

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Single Audit Report

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Contents

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Building a better working world

Report of Independent Auditors

Board of Managers
Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Report on the Financial Statements

We have audited the accompanying combined financial statements of Memorial Sloan Kettering Cancer Center and Affiliated Corporations (the Institution), which comprise the combined balance sheets as of December 31, 2014 and 2013, and the related combined statements of unrestricted activities, changes in net assets, and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of MSK Insurance US, Inc., a wholly owned subsidiary, which statements reflect total assets constituting 2.5% in 2014 and 4.3% in 2013, total liabilities constituting 7.0% in 2014 and 2013, and total revenues constituting 0.3% in 2014 and 2013 of the related combined totals. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for MSK Insurance US, Inc., is based solely on the report of the other auditors. We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of MSK Insurance US, Inc. were not audited in accordance with *Government Auditing Standards.*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the combined financial position of the Institution at December 31, 2014 and 2013, and the combined results of its operations, changes in its net assets and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards as required by US Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we also have issued our report dated April 24, 2015, on our consideration of the Institution's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Institution's internal control over financial reporting and compliance.

Ernst & Young LLP

April 24, 2015, except for the schedule of
expenditures of federal awards for which the
date is September 30, 2015

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Combined Balance Sheets

	December 31	
	2014	**2013**
Assets	*(In Thousands)*	
Current assets:		
Cash and cash equivalents *(Notes 1 and 3)*	**$ 346,721**	$ 398,598
Short-term investments – at fair value *(Notes 1 and 3)*	**243,295**	181,381
Accounts receivable, less allowance for doubtful accounts (2014 – $21,262; 2013 – $17,828) *(Note 2)*	**575,829**	477,670
Pledges, trusts and estates receivable *(Note 1)*	**184,656**	153,069
Other current assets	**87,900**	81,732
Total current assets	**1,438,401**	1,292,450
Noncurrent assets:		
Assets whose use is limited:		
Investments in marketable securities – at fair value:		
Construction, debt service and repair reserve funds *(Notes 1, 3 and 5)*	**99,672**	198,017
Captive insurance funds *(Notes 3 and 8)*	**46,935**	44,213
Employee benefit funds *(Notes 1, 6 and 7)*	**72,342**	67,136
Total investments in marketable securities whose use is limited	**218,949**	309,366
Investments – at fair value *(Notes 1 and 3)*	**3,416,601**	3,302,684
Investments internally designated for major capital projects (*Note 5*)	**829,744**	820,997
Investments in nonmarketable securities at cost *(Note 1)*	**85,879**	85,492
Property and equipment – net *(Notes 1, 4 and 5)*	**2,501,314**	2,228,299
Mortgages and other loans receivable	**29,897**	29,629
Pledges, trusts and estates receivable *(Note 1)*	**405,563**	354,816
Other noncurrent assets	**54,324**	57,685
Total noncurrent assets	**7,542,271**	7,188,968
Total assets	**$ 8,980,672**	$ 8,481,418
Liabilities and net assets		
Current liabilities:		
Accounts payable	**$ 304,613**	$ 228,267
Accrued expenses	**294,503**	275,302
Current portion of long-term debt and capital lease obligations *(Note 5)*	**41,920**	51,067
Total current liabilities	**641,036**	554,636
Noncurrent liabilities:		
Long-term debt and capital lease obligations, less current portion *(Note 5)*	**2,001,769**	2,046,964
Other noncurrent liabilities *(Notes 6, 7, 8 and 11)*	**971,459**	735,844
Total liabilities	**3,614,264**	3,337,444
Net assets:		
Unrestricted:		
Undesignated	**3,828,603**	3,734,488
Board-designated	**184,480**	197,955
Total unrestricted	**4,013,083**	3,932,443
Temporarily restricted *(Note 1)*	**765,065**	656,237
Permanently restricted *(Note 1)*	**588,260**	555,294
Total net assets	**5,366,408**	5,143,974
Total liabilities and net assets	**$ 8,980,672**	$ 8,481,418

See notes to combined financial statements.

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Combined Statements of Unrestricted Activities

	Year Ended December 31 2014	2013
	(In Thousands)	
Undesignated operating revenues		
Hospital care and services	**$ 2,102,081**	$ 1,929,716
Medical practice	**458,376**	438,015
Grants and contracts	**229,562**	202,061
Contributions allocated to operations	**183,937**	164,943
Royalty income	**162,710**	94,058
Other income	**62,643**	57,150
Investment returns allocated to operations	**87,917**	82,028
Transfer of Board-designated annual royalty annuitization	**15,885**	57,495
Total operating revenues	**3,303,111**	3,025,466
Operating expenses		
Salaries and wages	**1,211,068**	1,128,334
Physicians' practice compensation	**175,357**	170,000
Employee fringe benefits	**396,052**	391,167
Purchased supplies and services	**661,194**	576,471
Pharmaceuticals	**401,407**	348,220
Depreciation and amortization	**217,342**	210,373
Provision for bad debts and regulatory assessments	**35,859**	19,969
Interest	**50,147**	55,039
Total expenses	**3,148,426**	2,899,573
Less fund raising expenses transferred to nonoperating income and expenses	**(59,627)**	(52,470)
Total operating expenses	**3,088,799**	2,847,103
Income from operations	**214,312**	178,363
Nonoperating income and expenses, net		
Contributions, net of fundraising expenses and amount allocated to operations	**(74,767)**	(79,070)
Net assets released from restrictions	**110,712**	85,813
Investment returns, net of allocation to operations and transfers to temporarily restricted net assets	**105,502**	292,832
Other nonoperating income and expenses, net	**(36,562)**	25,469
Total nonoperating income and expenses, net	**104,885**	325,044
Increase in unrestricted net assets before change in postretirement benefit obligation to be recognized in future periods and Board-designated activities	**319,197**	503,407
Board-designated		
Investment income and other additions	**1,915**	3,323
Transfer of annual royalty annuitization	**(15,885)**	(57,495)
Decrease in Board-designated	**(13,970)**	(54,172)
Increase in unrestricted net assets before change in postretirement benefit obligation to be recognized in future periods	**305,227**	449,235
Change in postretirement benefit obligation to be recognized in future periods	**(224,587)**	208,351
Increase in total unrestricted net assets	**$ 80,640**	$ 657,586

See notes to combined financial statements.

Memorial Sloan Kettering Cancer Center and Affiliated Corporations

Combined Statements of Changes in Net Assets

Years Ended December 31, 2014 and 2013

	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
		(*In Thousands*)		
Net assets at January 1, 2013	$ 3,274,857	$ 500,568	$ 457,627	$ 4,233,052
Increase in unrestricted net assets	657,586	–	–	657,586
Contributions, pledges and bequests	–	185,470	56,687	242,157
Investment return on endowments	–	56,012	40,980	96,992
Net assets released from restrictions	–	(85,813)	–	(85,813)
Net assets at December 31, 2013	3,932,443	656,237	555,294	5,143,974
Increase in unrestricted net assets	**80,640**	–	–	**80,640**
Contributions, pledges and bequests	–	**181,976**	**25,760**	**207,736**
Investment return on endowments	–	**37,564**	**7,206**	**44,770**
Net assets released from restrictions	–	**(110,712)**	–	**(110,712)**
Net assets at December 31, 2014	**$ 4,013,083**	**$ 765,065**	**$ 588,260**	**$ 5,366,408**

See notes to combined financial statements.

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Combined Statements of Cash Flows

	Year Ended December 31	
	2014	2013
	(In Thousands)	
Operating activities		
Change in net assets	**$ 222,434**	$ 910,922
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	**217,342**	210,373
Equity in earnings of investments in real estate, net	**(495)**	(338)
Gain on sale of property	**–**	(62,195)
Unrealized net gains	**(49,902)**	(269,151)
Realized net gains	**(168,066)**	(176,739)
Amortization of bond premium	**(3,275)**	(3,279)
Temporarily and permanently restricted contributions, pledges and bequests transferred to investing activities	**(207,736)**	(242,157)
Change in postretirement benefit obligation to be recognized in future periods	**224,587**	(208,351)
Changes in assets:		
Accounts receivable, net	**(98,159)**	(51,201)
Pledges, trusts and estates receivable, net	**(82,334)**	(97,075)
Other current assets	**(6,168)**	8,146
Other noncurrent assets	**3,856**	(16,088)
Changes in liabilities:		
Accounts payable and accrued expenses	**77,455**	26,883
Other noncurrent liabilities	**12,622**	20,253
Net cash provided by operating activities	**142,161**	50,003
Investing activities		
Net acquisitions of property and equipment	**(473,859)**	(315,282)
Proceeds from sale of property	**–**	151,418
Decrease in investments, net	**123,420**	7,505
(Increase) decrease in mortgages and other loans receivable	**(268)**	865
Temporarily and permanently restricted contributions, pledges and bequests transferred from operating activities	**207,736**	242,157
Net cash (used in) provided by investing activities	**(142,971)**	86,663
Financing activities		
Repayment of debt	**(51,067)**	(51,918)
Net cash used in financing activities	**(51,067)**	(51,918)
Net change in cash and cash equivalents	**(51,877)**	84,748
Cash and cash equivalents at beginning of year	**398,598**	313,850
Cash and cash equivalents at end of year	**$ 346,721**	$ 398,598

See notes to combined financial statements.

1. Organization and Significant Accounting Policies

The mission of Memorial Sloan Kettering Cancer Center and Affiliated Corporations is to provide leadership in the prevention, treatment and cure of cancer through excellence, vision and cost effectiveness in patient care, outreach programs, research and education. The accompanying financial statements are presented on a combined basis and include the accounts of the following tax exempt, Section 501(c)(3), incorporated affiliates: Memorial Sloan Kettering Cancer Center (the Center), Memorial Hospital for Cancer and Allied Diseases (the Hospital), Sloan Kettering Institute for Cancer Research (the Institute), S.K.I. Realty, Inc., MSK Insurance US, Inc. (MSKI), the Louis V. Gerstner Jr. Graduate School of Biomedical Sciences, Prostate Cancer Clinical Trials Consortium, LLC, Ralph Lauren Center for Cancer Care and Prevention, and MSK Proton, Inc. All of these entities are collectively referred to as the "Institution".

The functional expenses related to the fulfillment of the Institution's mission are:

	Year Ended December 31	
	2014	**2013**
	(In Thousands)	
Patient care and medical education and training	**$ 2,480,023**	$ 2,300,167
Research	**566,884**	513,303
Fund raising	**59,627**	52,470
Management and general	**41,892**	33,633
	$ 3,148,426	$ 2,899,573

Total contributions and pledges raised through fund raising efforts were approximately $376.5 million and $380.5 million for 2014 and 2013, respectively.

The following is a summary of the Institution's significant accounting policies:

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those where use by the Institution has been limited by donors because of a time or purpose restriction. Permanently restricted net assets have been restricted by donors to be maintained by the Institution in perpetuity.

1. Organization and Significant Accounting Policies (continued)

Donor Gifts

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the combined financial statements as net assets released from restrictions. Donor restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying combined financial statements.

Contributions allocated to operations represent the utilization of donor funds which are intended to support the current period's operations based on budgeted guidelines. The balance of unrestricted philanthropy is reported as nonoperating income.

Cash and Cash Equivalents

The Institution considers as cash and cash equivalents, all current investments, cash and certain highly liquid investments with original maturities of less than three months.

Investments

Investments in marketable securities are carried at fair value, based on quoted market prices.

Investments in nonmarketable securities, at cost, consist of interests in businesses or other ventures acquired through donations whose cost is determined as fair value at date received.

Alternative investments are stated in the accompanying combined balance sheets at fair value, which is estimated using the net asset values, a practical expedient, of each alternative investment. Financial information used by the Institution to evaluate its alternative investments is provided by the investment manager or general partner and may include fair value valuations (quoted market prices and values determined through other means) of underlying securities and other financial instruments held by the investee, and estimates that require varying degrees of judgment. The financial statements of the investee companies are audited annually by independent auditors, although the timing for reporting the results of such audits does not always coincide with the Institution's annual financial statement reporting.

1. Organization and Significant Accounting Policies (continued)

Realized gains or losses on investments sold or redeemed, together with unrealized appreciation or depreciation on investments and investment income are distributed to all categories of net assets, as appropriate. The total investment return (investment income and realized and unrealized gains and losses) is reflected in the accompanying combined statements of unrestricted activities in two portions. The investment return allocated to operating revenues is determined by application of a normal return to a three-year average market value of investments, excluding certain permanently restricted assets and certain other funds. The rate of allocation was 4% in 2014 and 2013. In addition, actual investment earnings on short-term fixed income funds are included in operating revenues. The investment return classified as nonoperating represents the difference between the actual total investment return and the amount allocated to operating revenues less amounts transferred to temporarily restricted net assets for endowments. Investment expenses, other than fees paid directly to investment managers, amounted to $10.9 million and $8.4 million in 2014 and 2013, respectively, and are included in the combined statements of unrestricted activities in investment returns, net of allocation to operations.

Investment returns, net of investment expenses, consist of the following:

	2014	2013
	(In Thousands)	
Investment income	**$ 22,136**	$ 29,285
Realized gains	**168,066**	176,739
Unrealized gains	**49,902**	269,151
Total	**$ 240,104**	$ 475,175

Unconditional Promises to Give

Unconditional promises to give are recorded when the gift intent is made known in writing. A receivable has been established and net assets have been increased by the time-discounted value of the promises. Irrevocable trusts are recorded at the point of notification and are recorded as temporarily or permanently restricted as determined by the trust instruments. Estates are estimated and recorded at the conclusion of probate.

1. Organization and Significant Accounting Policies (continued)

The Institution is aware of numerous unconditional promises to give and estimates the year of receipt to the extent possible. The anticipated present value of the receivable is as follows (in thousands):

2015	$ 184,656
2016	92,368
2017	49,602
2018	42,950
2019	29,233
Thereafter	191,410
	$ 590,219

The present value discount on unconditional promises to give is approximately $67.8 million and $68.1 million at December 31, 2014 and 2013, respectively.

Property and Equipment

Property and equipment is carried at cost, less accumulated depreciation and amortization. Depreciation on building components and equipment is computed on the straight-line method over the estimated useful service lives.

Leasehold improvements are being amortized over the term of the lease, based on the straight-line method.

The carrying amount of assets and the related accumulated depreciation or amortization are removed from the accounts when such assets are disposed of and any resulting gain or loss is included in operations.

All eligible costs incurred for the development of computer software for internal use are capitalized and carried at cost, less accumulated amortization. Amortization of capitalized internal use software cost is based on the straight-line method over the estimated useful life of the software.

1. Organization and Significant Accounting Policies (continued)

Charity Care and Community Benefit Programs

Consistent with its mission, the Institution invests significant amounts for the benefit of the worldwide community that is served through its patient care, education and research activities. Listed below are quantifiable benefits provided.

Charity care represents the cost of services provided to patients who cannot afford health care services due to inadequate resources and/or are uninsured or underinsured. A patient is classified as a charity care patient in accordance with the Institution's established policies and where insufficient payment for such services is anticipated. For the periods presented, the Institution considers patients for charity care if household income is less than 500% of the federal poverty guidelines. Services provided as charity care are not reported as revenue in the combined statements of unrestricted activities. Costs of providing charity care are estimated by multiplying the total charges incurred by patients that qualify for charity care by a ratio of historical expenses to charges as derived from the Hospital's accounting records. The Institution receives payments from the New York State Public Goods Pool for charity care and such amounts totaled approximately $14.1 million and $10.2 million for the years ended December 31, 2014 and 2013, respectively. Payments made into the pool by the Institution were approximately $6.4 million and $7.1 million for the years ended December 31, 2014 and 2013, respectively.

In addition to the community benefit program services above, the Institution provides services to patients who participate in government-sponsored health programs, such as Medicare and Medicaid. Payments received by the Institution for patient services provided under these programs are less than the actual cost of providing such services. Therefore, to the extent Medicare and Medicaid payments are less than the cost of care provided, the uncompensated cost of that care is considered to be a community benefit.

Research community benefit costs represent the Institution's costs for basic, translational and clinical research.

The Institution is a preeminent provider of health training to health professionals who desire training in the skills necessary to treat cancer patients. The Institution trains physicians, radiology students, nursing students, social work students and individuals looking to create a career in the field of cancer biology. The amounts shown below represent costs in excess of amounts reimbursed by third-party payors such as training grant revenues and direct medical education payments from the Medicare program.

1. Organization and Significant Accounting Policies (continued)

The following is a summary of the Institution's estimated costs of providing charity care and community benefit program services:

	December 31	
	2014	**2013**
	(In Thousands)	
Charity care	**$ 17,628**	$ 19,584
Unpaid cost of government sponsored healthcare	**213,702**	204,413
Research supported by governmental/voluntary agencies	**170,491**	161,114
Other research	**396,318**	352,189
Health training	**155,030**	128,648
Other	**19,616**	19,605
Charity care and community benefit programs	**$ 972,785**	$ 885,554

Use of Estimates

The preparation of the combined financial statements in conformity with U.S. generally accepted accounting principles requires management to make prudent and conservative estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Royalty Annuitization

The deferred gain on the sale of certain royalty rights is being recognized as a component of operating revenues over a ten-year period. The final annuitization will occur in 2015.

1. Organization and Significant Accounting Policies (continued)

Endowments

The Institution follows the New York Prudent Management of Institutional Funds Act (NYPMIFA) which was enacted on September 17, 2010. The Institution has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while maintaining the historic dollar value of permanently restricted contributions. The Institution classifies as permanently restricted net assets (a) the original value of the gifts donated, (b) the original value of subsequent gifts, (c) the net realizable value of future payments in accordance with the donor's gift instrument (outstanding pledges, net of applicable discount) and (d) appreciation (depreciation), gains (losses) and income earned on the fund when the donor states that such increases or decreases are to be treated as changes in permanently restricted net assets. The endowment assets are pooled with unrestricted assets and invested in various diversified asset classes.

The Institution has a policy of appropriating for spending an annualized percentage of each permanently restricted fund's value, with certain exceptions. In establishing this policy, the Institution considered the long-term expected return on its investment portfolio. The spending rate appropriated by the Institution was 4% in 2014 and 2013.

The Institution's endowment investment returns in excess or deficit of the spending rate will be accumulated in a temporarily restricted net asset account, which is restricted by purpose. The temporarily restricted net asset account will be added to the permanently restricted fund's value in order to calculate the appropriation for spending.

To satisfy its long-term rate-of-return objectives, the Institution relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Institution targets a diversified asset allocation (see Note 3) to achieve its long-term return objectives within prudent risk constraints. As a result of fluctuations in the investment markets, from time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the level that the donor requires the Institution to retain as a fund of perpetual duration. There were no deficiencies of this nature as of December 31, 2014 and 2013.

1. Organization and Significant Accounting Policies (continued)

Changes in donor endowment funds for the years ended December 31, 2014 and 2013, consisted of the following:

	Unrestricted	Temporarily Restricted	Permanently Restricted
		(In Thousands)	
Endowment funds at December 31, 2013	**$ –**	**$ 124,874**	**$ 555,294**
Investment return on endowments	**33,948**	**37,564**	**7,206**
Contributions	**–**	**–**	**25,760**
Appropriations	**(33,948)**	**–**	**–**
Endowment funds at December 31, 2014	**$ –**	**$ 162,438**	**$ 588,260**

	Unrestricted	Temporarily Restricted	Permanently Restricted
		(In Thousands)	
Endowment funds at December 31, 2012	$ –	$ 68,862	$ 457,627
Investment return on endowments	28,946	56,012	40,980
Contributions	–	–	56,687
Appropriations	(28,946)	–	–
Endowment funds at December 31, 2013	$ –	$ 124,874	$ 555,294

Included in permanently restricted net assets are amounts that represent the Institution's beneficial interest in certain perpetual trusts which are held by third-party trustees. The underlying assets of the perpetual trusts are included in other noncurrent assets on the combined balance sheets and consist of equity securities and mutual funds. The fair value at December 31, 2014 and 2013 was approximately $8.2 million and $7.9 million, respectively. The change in fair value of the beneficial interest in perpetual trusts held by third parties is included in the change in permanently restricted net assets.

1. Organization and Significant Accounting Policies (continued)

Subsequent Events

Subsequent events have been evaluated through April 24, 2015 which is the date the combined financial statements were issued. Other than those disclosed elsewhere in the notes to the combined financial statements, no subsequent events have occurred that require disclosure in or adjustment to the combined financial statements.

Recent Accounting Pronouncement

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. (ASU) 2014-09, *Revenue from Contracts with Customers*. The core principle of ASU 2014-09 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance in ASU 2014-09 supersedes the FASB's current revenue recognition requirements in Accounting Standards Codification Topic 605, *Revenue Recognition*, and most industry-specific guidance. The provisions of ASU 2014-09 are effective for the Institution for annual reporting periods beginning after December 15, 2016. Early application is not permitted. The Institution has not completed the process of evaluating the impact of ASU 2014-09 on its combined financial statements.

Reclassifications

Certain reclassifications have been made to 2013 amounts previously reported in order to conform with the current year presentation.

2. Third-Party Reimbursement Programs

Hospital care and service revenues are recorded at established rates when patient services are performed. Reimbursement by third-party payor programs can be less than published charges, with adjustments for such differences recorded as contractual allowances deducted directly from accounts receivable and operating revenues in the year incurred. Adjustments from established rates are also recorded for potential retrospective adjustments, which are an inherent component of the health care revenue recognition process.

2. Third-Party Reimbursement Programs (continued)

Non-Medicare Reimbursement

In New York State, hospitals and all non-Medicare payers, except Medicaid, workers' compensation and no-fault insurance programs, negotiate hospitals' payment rates. If negotiated rates are not established, payers are billed at hospitals' established charges. Medicaid pays hospital rates promulgated by the New York State Department of Health. Payments to the Hospital for Medicaid inpatient services are based on a prospective payment system, with retroactive adjustments. Outpatient services are paid based on a statewide prospective system that was effective December 1, 2008. Medicaid rate methodologies are subject to approval at the Federal level by the Centers for Medicare and Medicaid Services (CMS), which may routinely request information about such methodologies prior to approval. Revenue related to specific rate components that have not been approved by CMS are not recognized until the Hospital is reasonably assured that such amounts are realizable. Adjustments to the current and prior years' payment rates for those payers will continue to be made in future years.

Medicare Reimbursement

The Hospital is exempt from the national prospective payment system used to reimburse hospitals for inpatient services provided to Medicare beneficiaries and instead is paid using a cost-based methodology. These payments are subject to a limit that is based on costs from the mid 2000s for rate years beginning on or subsequent to January 1, 2007, which are then updated based on annual trend factors calculated by CMS. Prior to January 1, 2007, the limit was based on costs from the early 1990s. The Hospital is paid for outpatient services under the national prospective payment system and other methodologies of the Medicare program for certain other services. The outpatient payments are subject to a floor that ensures the Hospital receives at least 89% of its Medicare defined allowable outpatient costs effective January 1, 2014. The minimum payment was 91% in 2013 and 2012 and 80% in previous years. Federal regulations provide for certain adjustments to current and prior years' payment rates, based on hospital-specific data.

The Hospital has established estimates, based on information presently available, of amounts due to or from Medicare and non-Medicare payers for adjustments to current and prior years' payment rates. The current Medicaid, Medicare and other third-party payor programs are based upon extremely complex laws and regulations that are subject to interpretation. Medicare cost reports, which serve as the basis for final settlement with the Medicare program, have been

2. Third-Party Reimbursement Programs (continued)

audited by the Medicare fiscal intermediary and settled through the year ended December 31, 2007. Other years remain open for audit and subsequent settlement as are numerous issues related to the New York State Medicaid program for prior years. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount when open years are settled. Approximately 0.29% of operating revenues in 2014 and 1.66% of operating revenues in 2013 are due to adjustments of prior year operating revenues. Additionally, noncompliance with such laws and regulations could result in fines, penalties and exclusion from such programs. The Hospital is not aware of any allegations of noncompliance that could have a material adverse effect on the combined financial statements and believes that it is in compliance with all applicable laws and regulations.

There are various proposals at the Federal and State levels that could, among other things, significantly reduce payment rates or modify payment methods. The ultimate outcome of these proposals and other market changes, including the potential effects of health care reform that has been enacted by the Federal government, cannot presently be determined. Future changes in the Medicare and Medicaid programs and any reduction of funding could have an adverse impact on the Hospital. Additionally, Medicare payment rates for various years have been appealed by the Hospital. If the appeals are successful, additional income applicable to those years might be realized.

Significant concentrations of accounts receivable at December 31, 2014 include 24% from government-related programs, 15% from Empire Health Choice and 21% from United Healthcare (22%, 17% and 18%, respectively, at December 31, 2013).

3. Cash, Cash Equivalents and Investments at Fair Value

For assets and liabilities required to be measured at fair value, the Institution measures fair value based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements are applied based on the unit of account from the Institution's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

The Institution follows a valuation hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

3. Cash, Cash Equivalents and Investments at Fair Value (continued)

- *Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

- *Level 2:* Observable inputs are based on inputs not quoted in active markets, but corroborated by market data.

- *Level 3:* Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the Institution uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

United States-based and international equities consist of individually held securities and commingled funds. Individual securities and certain commingled funds are valued based on the quoted market prices of the securities as reported on national securities exchanges. Commingled funds primarily are valued based on the net asset value (NAV) of shares held by the Institution at year end.

Fixed income securities include corporate bonds, U.S. government securities, international fixed income securities, and commingled funds. Corporate bonds, U.S. government and international fixed income securities are valued based on readily available market quotations received from commercial pricing services. Such pricing services and brokers will generally provide bid-side quotations. Commingled funds are valued based on quoted market prices as reported on national securities exchanges, if applicable, or the NAV of shares held by the Institution at year end.

Alternative investments include absolute return funds, long/short funds, global macro funds, inflation hedging funds, opportunistic funds, hard assets, private equity funds and venture capital. Alternative investment interests generally are structured such that the Institution holds a limited partnership interest. The Institution's ownership structure does not provide for control over the related investees and the Institution's financial risk is limited to the funded and unfunded commitment for each investment. As of December 31, 2014, the Institution had

3. Cash, Cash Equivalents and Investments at Fair Value (continued)

outstanding commitments to provide additional capital of approximately $262.4 million to various nonmarketable alternative investment managers.

Individual investment holdings within the alternative investments include nonmarketable and market-traded debt and equity securities and interests in other alternative investments. The Institution may be exposed indirectly to securities lending, short sales of securities and trading in futures and forward contracts, options and other derivative products. Alternative investments often have liquidity restrictions under which the Institution’s capital may be divested only at specified times. The Institution’s liquidity restrictions range from several months to ten years for certain private equity investments. Liquidity restrictions may apply to all or portions of a particular invested amount.

There is uncertainty in determining fair values of alternative investments arising from factors such as lack of active markets (primary and secondary), lack of transparency into underlying holdings, time lags associated with reporting by the investee companies and the subjective evaluation of liquidity restrictions. As a result, the estimated fair values reported in the accompanying combined balance sheets might differ from the values that would have been used had a ready market for the alternative investment interests existed and there is at least a reasonable possibility that those estimates will change.

The following is a description of the Institution’s valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers. Level 3 assets consist of alternative investments, the valuation for which is described in Note 1. The methods described above may produce a fair value that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Institution believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

3. Cash, Cash Equivalents and Investments at Fair Value (continued)

Financial instruments, other than employee benefit funds and pension plan assets (see Note 7), carried at fair value as of December 31, 2014 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Cash, cash equivalents and short-term investments	**$ 768,770**	**$ –**	**$ –**	**$ 768,770**
United States-based equity investments:				
Equity securities	**141,072**	**270,692**	**–**	**411,764**
Commingled funds	**–**	**144,533**	**36,085**	**180,618**
International equity investments:				
Equity securities	**293,559**	**7,628**	**–**	**301,187**
Commingled funds	**–**	**63,680**	**119,803**	**183,483**
Fixed income investments:				
Corporate bonds	**–**	**952,437**	**–**	**952,437**
U.S. Government and other	**85,457**	**99,790**	**–**	**185,247**
Commingled funds	**38,006**	**–**	**18,216**	**56,222**
Alternative investments:				
Marketable:				
Absolute return funds	**25,000**	**310,703**	**233,376**	**569,079**
Long/short funds	**–**	**126,728**	**254,569**	**381,297**
Global macro funds	**–**	**–**	**32,503**	**32,503**
Inflation hedging funds	**108,465**	**793**	**20,735**	**129,993**
Nonmarketable:				
Venture capital	**–**	**–**	**270,647**	**270,647**
Private equity	**–**	**–**	**248,181**	**248,181**
Opportunistic funds	**–**	**–**	**160,161**	**160,161**
Hard assets	**–**	**–**	**151,379**	**151,379**
Total investments carried at fair value	**$ 1,460,329**	**$ 1,976,984**	**$ 1,545,655**	**$ 4,982,968**

3. Cash, Cash Equivalents and Investments at Fair Value (continued)

Financial instruments, other than employee benefit funds and pension plan assets (see Note 7), carried at fair value as of December 31, 2013 are classified in the table below in one of the three categories described above:

	Level 1	Level 2	Level 3	Total
		(In Thousands)		
Cash, cash equivalents and short-term investments	$ 759,928	$ –	$ –	$ 759,928
United States-based equity investments:				
Equity securities	152,721	22,633	–	175,354
Commingled funds	–	322,321	66,207	388,528
International equity investments:				
Equity securities	285,881	13,266	–	299,147
Commingled funds	–	85,468	52,589	138,057
Fixed income investments:				
Corporate bonds	–	990,634	–	990,634
U.S. Government and other	173,967	83,435	–	257,402
Commingled funds	6,148	16,678	20,328	43,154
Alternative investments:				
Marketable:				
Absolute return funds	–	314,284	239,680	553,964
Long/short funds	–	106,510	260,442	366,952
Global macro funds	–	–	58,281	58,281
Inflation hedging funds	109,585	2,044	25,510	137,139
Nonmarketable:				
Venture capital	–	–	202,870	202,870
Private equity	–	–	267,858	267,858
Opportunistic funds	–	–	143,852	143,852
Hard assets	–	–	162,770	162,770
Total investments carried at fair value	$ 1,488,230	$ 1,957,273	$ 1,500,387	$ 4,945,890

3. Cash, Cash Equivalents and Investments at Fair Value (continued)

The following table represents the rollforward of the combined balance sheet amounts for financial instruments classified by the Institution within Level 3 of the valuation hierarchy defined above:

	2014	2013
	(In Thousands)	
Fair value at beginning of year	**$ 1,500,387**	$ 1,215,924
Unrealized gains	**28,797**	135,515
Realized gains	**103,789**	74,609
Acquisitions	**219,769**	322,092
Dispositions	**(307,087)**	(247,753)
Fair value at end of year	**$ 1,545,655**	$ 1,500,387

Other financial instruments that are not required to be carried at fair value include debt, pledges and mortgages receivable. The Institution's long-term debt obligations are reported in the accompanying combined balance sheets at carrying value which totaled approximately $2.04 billion and $2.09 billion at December 31, 2014 and 2013, respectively, excluding capital leases. The fair value of long-term debt obligations at December 31, 2014 and 2013, as determined by quoted market prices, totaled approximately $2.17 billion and $2.04 billion, respectively. These fair values are categorized as Level 2 in the fair value hierarchy described above. Pledges and mortgages receivable are recorded at carrying value, net of applicable discounts in the accompanying combined balance sheets which approximates fair value.

4. Property and Equipment

Property and equipment consists of the following:

	December 31	
	2014	**2013**
	(*In Thousands*)	
Land	**$ 136,470**	$ 136,470
Buildings and leasehold improvements	**2,893,210**	2,678,134
Equipment	**1,149,678**	1,051,733
Construction-in-progress	**499,961**	333,702
	4,679,319	4,200,039
Less accumulated depreciation and amortization	**2,178,005**	1,971,740
	$ 2,501,314	$ 2,228,299

In 2014 and 2013, the Institution wrote off approximately $9.0 million and $200.2 million, respectively, of fully depreciated assets.

The Institution has entered into capital lease financing agreements in conjunction with the Dormitory Authority of the State of New York's (DASNY) tax-exempt lease program (see Note 5). At December 31, 2014 and 2013, capital assets recorded in connection with this lease program aggregated approximately $97.1 million, with accumulated amortization aggregating approximately $75.6 million and $57.3 million, respectively.

In 2013, the Institution completed the sale of Manhattan real estate located at East 19th Street that was acquired in 2010 for approximately $83.1 million as a potential outpatient facility. The sale price, less closing costs, was approximately $151.4 million and resulted in a net gain of approximately $62.2 million which was recorded as other nonoperating income in 2013. The purchase of the property at East 19th Street was financed in part through the issuance of DASNY Series 2010 tax-exempt bonds (the 2010 Bonds). The remaining proceeds of the sale are included in assets whose use is limited at December 31, 2014 and are being used to fund certain tax-exempt construction projects.

In March 2015, the Institution purchased Manhattan real estate located at 530 East 74th Street for approximately $215.0 million. The Institution will use the property to expand ambulatory care and clinical research.

5. Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations consist of the following:

	December 31 2014	December 31 2013
	(In Thousands)	
DASNY Series 1998, tax-exempt bonds maturing through 2023 at various fixed interest rates ranging from 5.25% to 5.75%	**$ 140,000**	$ 141,400
DASNY Series 2006, tax-exempt bonds maturing between 2027 and 2035 at various fixed interest rates ranging from 4.75% to 5.00%	**215,085**	215,085
DASNY Series 2008, tax-exempt bonds maturing between 2015 and 2036 at various fixed interest rates ranging from 4.00% to 5.00%	**385,640**	414,970
DASNY Series 2010, tax-exempt bonds maturing through 2023 at a fixed interest rate of 2.18%	**70,000**	78,000
Series 2011A taxable bonds maturing in 2042 at a fixed interest rate of 5.00%	**400,000**	400,000
DASNY Series 2012, tax-exempt bonds maturing through 2041 at various fixed interest rates ranging from 3.00% to 5.00%	**87,825**	89,525
DASNY 2012 Series 1, tax-exempt bonds maturing through 2034 at various fixed interest rates ranging from 4.00% to 5.00%	**262,265**	262,265
Commercial bank loan maturing through 2016 at a fixed interest of 1.50%	**45,140**	45,140
Series 2012A taxable bonds maturing in 2052 at a fixed interest rate of 4.125%	**400,000**	400,000
DASNY 2009, capital lease maturing in 2014 at 2.89%	**–**	10,637
Unamortized bond premium	**37,734**	41,009
	2,043,689	2,098,031
Less current portion	**41,920**	51,067
	$ 2,001,769	$ 2,046,964

5. Long-Term Debt and Capital Lease Obligations (continued)

In 2013, as a result of the sale of property at East 19th Street (see Note 4), the Institution repurposed the 2010 Bonds to be used for certain other tax-exempt construction projects. In addition, the interest rate and repayment terms of the 2010 Bonds, which are privately placed with a sole bondholder, were re-negotiated so that the debt matures in 2023 at a fixed interest rate of 2.18%.

In February 2015, the Institution issued $550.0 million of Series 2015 taxable term bonds (the 2015 Bonds). The 2015 Bonds mature in July 2055 with a fixed interest rate of 4.20%. The Institution will use the proceeds to finance certain capital projects, pay costs of issuance of the 2015 Bonds and for other eligible corporate purposes. The related proceeds will be recorded on the combined balance sheet as investments internally designated for major capital projects, until such point that they are used for a designated purpose.

Annual maturities on all long-term debt as of December 31, 2014 for the years 2015 through 2019 are as follows (in thousands):

2015	$ 41,920
2016	43,420
2017	45,785
2018	47,665
2019	48,750

Total interest paid in 2014 and 2013 (including portions supporting capitalized costs) was approximately $88.9 million and $100.3 million, respectively. Interest expense related to the Series 2011A and the Series 2012A taxable bonds will be included in other nonoperating income and expenses, net until the related proceeds are spent on capital projects. Nonoperating interest expense was approximately $36.7 million during each of 2014 and 2013.

Certain of the above debts are secured by a pledge of revenues from certain facilities, bond insurance and springing collateral, which would require the Institution to mortgage a substantial portion of real property if certain financial covenants and ratios are not maintained. The Institution was in compliance with all such financial requirements during 2014 and 2013.

At December 31, 2014 and 2013, the Institution had unsecured lines of credit available with banks totaling $300.0 million and $200.0 million, respectively, with varying renewable terms and interest based on the London Interbank Offered Rate. There were no amounts drawn at December 31, 2014 and 2013.

6. Other Noncurrent Liabilities

Other noncurrent liabilities consist of the following:

	December 31	
	2014	**2013**
	(In Thousands)	
Pension obligations *(Note 7)*	**$ 387,428**	$ 221,239
Postretirement obligation *(Note 7)*	**206,023**	159,392
Insurance reserves *(Note 8)*	**251,066**	231,382
Deferred compensation	**58,122**	53,966
Asset retirement obligations *(Note 11)*	**35,020**	33,426
Deferred gift annuity	**24,735**	27,167
All other	**9,065**	9,272
	$ 971,459	$ 735,844

7. Retiree Pension and Health Plans

The Institution has a retirement annuity plan which provides eligible staff members with retirement income through individual deferred annuity contracts purchased in each participant's name. In addition, the Institution maintains a nonqualified deferred compensation plan which is used for employer contributions in excess of those allowed by the retirement annuity plan. The effective date of this plan was January 1, 1983 and it has been grandfathered from the changes made by the Tax Reform Act of 1986. The plans' assets are included in assets whose use is limited in the combined balance sheets and consist of money market and mutual funds. The Institution contributes a fixed percentage of an individual's compensation to these plans.

Effective January 1, 2013, the Institution amended an existing 403(b) plan (composed of the basic plan and the voluntary plan) to have a new plan design and be renamed as the Memorial Sloan Kettering Cancer Center Retirement Savings Plan (the RSP). Under the RSP, all Institution employees are eligible to make voluntary employee contributions (salary deferrals), subject to IRS limits. Mandatory employee contributions are not required.

7. Retiree Pension and Health Plans (continued)

The Institution makes base contributions to the RSP for eligible employees, which depend on the employee's age (determined as of the preceding December 31). Additionally, the Institution matches contributions for voluntary employee contributions made by eligible employees. The Institution's cost for these plans was approximately $46.5 million and $40.9 million in 2014 and 2013, respectively.

The Institution also maintains a trusteed defined benefit plan (the Plan) for employees not covered by the above retirement annuity plan. The benefits are based on years of service, the employee's average compensation during the highest five of the last ten years of employment and a pension formula. The Plan has been amended and is frozen to new participants hired on or after December 16, 2012.

The Institution offers retirees and their spouses hospital and basic medical coverage which supplements any available Medicare coverage. The plan pays the balance of charges not paid by Medicare up to Medicare allowable charges. All employees become eligible for postretirement health care if they retire at age 60 or older, with at least 10 years of service, or under age 60 with 30 years of service. The accounting for the health care plans anticipates future retiree contributions increasing by annual health care cost increases plus 2%. Employees hired after December 31, 2006 are required to pay 100% of the coverage cost.

Effective January 1, 2013, the Institution offered to provide each Medicare-eligible retiree and spouse with a subsidy to purchase individual Medicare supplement coverage instead of the Institution's hospital and basic medical coverage. Retirees who did not elect for this subsidy continued unaffected under the current plan.

The Institution recognizes the funded status (i.e., the difference between the fair value of plan assets and the projected benefit obligations) of the defined benefit plans in its combined balance sheets. Net unrecognized actuarial losses and the net unrecognized prior service costs at the reporting date will be subsequently recognized in the future as net periodic benefit cost pursuant to the Institution's accounting policy for amortizing such amounts. Further, actuarial gains and losses that arise in subsequent periods and are not recognized as net periodic benefit cost in the same periods will be recognized as a component of unrestricted net assets. Included in unrestricted net assets at December 31, 2014 and 2013 are the following amounts that have not yet been recognized in net periodic benefit cost: unrecognized prior service credit of $44.1 million and $49.7 million, respectively, and unrecognized actuarial losses of

7. Retiree Pension and Health Plans (continued)

$436.0 million and $216.9 million, respectively. The prior service credit and actuarial loss included in unrestricted net assets and expected to be recognized in net periodic benefit cost during the year ending December 31, 2015 are $5.6 million and $19.5 million, respectively.

The following tables provide a reconciliation of the change in the benefit obligations and fair value of plan assets and funded status of the Institution's pension and postretirement plans:

	Pension Benefits		**Postretirement Health**	
	December 31		**December 31**	
	2014	**2013**	**2014**	**2013**
	(In Thousands)			
Reconciliation of benefit obligations				
Benefit obligations at beginning of year	**$1,041,842**	$1,103,627	**$ 165,439**	$ 173,111
Service cost	**59,782**	61,944	**5,443**	6,155
Interest cost	**56,202**	49,986	**8,636**	7,598
Plan participants' contributions	**463**	409	**2,787**	2,792
Actuarial losses (gains)	**223,102**	(139,681)	**36,104**	(16,679)
Benefits paid	**(31,334)**	(32,751)	**(6,980)**	(7,538)
Expenses paid	**(1,598)**	(1,692)	–	–
Benefit obligations at end of year	**$1,348,459**	$1,041,842	**$ 211,429**	$ 165,439

7. Retiree Pension and Health Plans (continued)

	Pension Benefits		Postretirement Health	
	December 31		December 31	
	2014	2013	2014	2013
	(In Thousands)			
Reconciliation of fair value of plan assets				
Fair value of plan assets at beginning of year	**$ 820,603**	$ 688,685	**$ –**	$ –
Actual return on plan assets	**82,897**	80,952	**–**	–
Employer contributions	**90,000**	85,000	**4,193**	4,746
Plan participants' contributions	**463**	409	**2,787**	2,792
Benefits paid	**(31,334)**	(32,751)	**(6,980)**	(7,538)
Expenses paid	**(1,598)**	(1,692)	**–**	–
Fair value of plan assets at end of year	**961,031**	820,603	**–**	–
Unfunded status at end of year	**$ (387,428)**	$ (221,239)	**$ (211,429)**	$ (165,439)
Current portion of obligation	**$ –**	$ –	**$ (5,406)**	$ (6,047)
Noncurrent portion of obligation	**(387,428)**	(221,239)	**(206,023)**	(159,392)
Total	**$ (387,428)**	$ (221,239)	**$ (211,429)**	$ (165,439)

7. Retiree Pension and Health Plans (continued)

The accumulated benefit obligation for the plans as of December 31, 2014 and 2013 was approximately $1.28 billion and $1.00 billion, respectively.

The following table provides the components of the net periodic cost for pension and postretirement benefit cost for the plans for the years ended December 31:

	Pension Benefits		Postretirement Health	
	2014	**2013**	**2014**	**2013**
	(In Thousands)			
Components of net periodic cost				
Service cost	**$ 59,782**	$ 61,944	**$ 5,443**	$ 6,155
Interest cost	**56,202**	49,986	**8,636**	7,598
Expected return on assets	**(53,899)**	(44,133)	**–**	–
Amortization of net loss	**5,713**	14,195	**5,460**	6,528
Amortization of prior service cost	**657**	657	**(6,208)**	(6,208)
Total net periodic cost	**$ 68,455**	$ 82,649	**$ 13,331**	$ 14,073

Actuarial Assumptions

Weighted-average assumptions used to determine benefit obligations are as follows:

	Pension Benefits		Postretirement Health	
	December 31		December 31	
	2014	**2013**	**2014**	**2013**
Discount rate	**4.45%**	5.40%	**4.30%**	5.30%
Rate of compensation increase	**4.25**	4.25	**–**	–

7. Retiree Pension and Health Plans (continued)

Weighted-average assumptions used to determine net periodic benefit cost are as follows:

	Pension Benefits December 31		Postretirement Health December 31	
	2014	**2013**	**2014**	**2013**
Discount rate	**5.40%**	4.60%	**5.30%**	4.45%
Rate of compensation increase	**4.25**	4.25	**–**	–
Expected long-term return on plan assets	**6.00**	6.00	**–**	–

The expected return of the portfolio was arrived at using the weighted-average of the expected returns of the underlying benchmark asset classes.

The health care cost trend rate assumptions for the postretirement hospital and basic medical coverage plan at December 31 are as follows:

	2014	**2013**
Health care cost trend rate assumed for next year	**7.00%**	6.67%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	**5.00**	5.00
Year that the rate reaches the ultimate trend rate	**2021**	2018

7. Retiree Pension and Health Plans (continued)

Effect of Change in Health Care Trends

Assumed health care cost trend rates have a significant effect on the postretirement health amounts reported. A 1% change in assumed health care cost trend rates would have the following effects on postretirement benefit costs:

	2014		**2013**	
	1% Increase	**1% Decrease**	**1% Increase**	**1% Decrease**
	(In Thousands)			
Effect on total of service and interest cost components of net periodic postretirement health care benefit cost	**$ 3,879**	**$ (2,793)**	$ 2,828	$ (2,210)
Effect on the health care component of the accumulated postretirement benefit obligation	**40,779**	**(31,729)**	27,554	(21,969)

Plan Assets

The following table presents the weighted-average long-term target asset allocations and the percentages of the fair value of pension plan assets as of December 31:

	Target Allocation	**Percentage of Plan Assets**	
	2014	**2014**	**2013**
U.S.-based equity securities	**25%**	**28%**	28%
International equity investments	**15**	**13**	17
Fixed income investments	**35**	**35**	32
Alternative investments	**25**	**24**	23

7. Retiree Pension and Health Plans (continued)

The Plan assets consist of cash and cash equivalents, U.S. and international equities, fixed income securities, commingled funds, and alternative investments. Alternative investments are listed by their corresponding strategy and holdings include domestic and international equity securities, fixed income securities, convertible debt, distressed debt, merger arbitrage, real estate, private investments and hedge funds. These investments pursue multiple strategies to diversify risk and reduce volatility.

Equities and real estate investment trusts are valued based on the quoted market prices of the securities as reported on national securities exchanges. Fixed income securities are valued based on readily available market quotations received from commercial pricing services. Such pricing services and brokers will generally provide bid-side quotations. Commingled funds are valued based on the NAV of shares held by the pension plan at year end. Mortgage-backed securities are valued based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources, including market participants, dealers and brokers. Alternative investments are stated at fair value as determined by Morgan Guaranty Trust Company of New York or by the investees. Value may be based on historical cost, appraisals, or other estimates that require varying degrees of judgment. Generally, fair value is stated at NAV, which reflects net contributions to the investee and an ownership share of realized and unrealized investment income and expenses.

The financial statements of the investees are audited annually by independent auditors. These investments may indirectly expose the pension plan to securities lending, short sales of securities, and trading in futures and forward contracts, options, swap contracts and other derivative products. While these financial instruments may contain varying degrees of risk, the pension plan’s risk with respect to such transactions is limited to its capital balance in each investment.

None of the alternative investments have gate provisions or other liquidity restrictions within their governing documents. Unfunded commitments for the alternative investments in the pension plan at December 31, 2014 are approximately $51.9 million.

7. Retiree Pension and Health Plans (continued)

Financial instruments of the Plan of the Institution, carried at fair value as of December 31, 2014, are classified in the table below in one of the three categories described in Note 3:

	Level 1	Level 2	Level 3	Total
		(*In Thousands*)		
Cash, cash equivalents, and money market funds	$ 8,006	$ –	$ –	$ 8,006
U.S. equity investments:				
Equity securities	30,701	–	–	30,701
Real estate investment trusts	1,753	–	–	1,753
Commingled funds	–	229,362	–	229,362
International equity investments:				
Commingled funds	–	128,747	–	128,747
Fixed income investments:				
U.S. government and other	66,213	–	–	66,213
Corporate bonds	–	44,221	–	44,221
Mortgage-backed securities	–	18,238	–	18,238
Commingled funds	–	192,920	6,418	199,338
Alternative investments:				
Relative value funds	–	14,528	–	14,528
Opportunistic/macro funds	–	8,943	3,510	12,453
Long/short equity funds	–	56,848	8,608	65,456
Merger arbitrage/event driven funds	–	12,560	9,000	21,560
Credit funds	–	31,617	17,341	48,958
Hedge funds	–	73	–	73
Private equity funds	–	–	71,424	71,424
	$ 106,673	$ 738,057	$ 116,301	$ 961,031

7. Retiree Pension and Health Plans (continued)

Financial instruments of the Plan of the Institution, carried at fair value as of December 31, 2013, are classified in the table below in one of the three categories described in Note 3:

	Level 1	Level 2	Level 3	Total
		(*In Thousands*)		
Cash, cash equivalents, and money market funds	$ 6,013	$ –	$ –	$ 6,013
U.S. equity investments:				
Equity securities	40,913	–	–	40,913
Real estate investment trusts	2,040	–	–	2,040
Commingled funds	–	175,448	–	175,448
International equity investments:				
Commingled funds	–	142,806	–	142,806
Fixed income investments:				
U.S. government and other	48,852	–	–	48,852
Corporate bonds	–	42,491	–	42,491
Mortgage-backed securities	–	21,069	–	21,069
Commingled funds	–	143,986	4,642	148,628
Alternative investments:				
Relative value funds	–	28,596	7,834	36,430
Opportunistic/macro funds	–	17,391	8,770	26,161
Long/short equity funds	–	26,489	7,489	33,978
Merger arbitrage/event driven funds	–	9,645	10,476	20,121
Credit funds	–	20,786	21,533	42,319
Hedge funds	–	489	–	489
Private equity funds	–	–	32,845	32,845
	$ 97,818	$ 629,196	$ 93,589	$ 820,603

7. Retiree Pension and Health Plans (continued)

The following table represents a rollforward of the total plan assets classified by the Institution within Level 3 of the valuation hierarchy defined in Note 3:

	2014	2013
	(In Thousands)	
Fair value at beginning of year	**$ 93,589**	$ 41,664
Acquisitions	**42,916**	40,919
Dispositions	**(25,991)**	(5,752)
Transfers in	–	10,886
Investment income	–	4,158
Realized gains	**4,122**	749
Unrealized gains	**1,665**	965
Fair value at end of year	**$ 116,301**	$ 93,589

Plan Objectives and Guidelines

The overall investment objective of the pension trust fund is to outperform a composite benchmark (an asset-weighted series of market indices used to measure the performance of each asset class) over a market cycle, while maintaining similar risk to the benchmark.

The portfolio is diversified to reduce the impact of losses in individual investments in a manner that is responsive to fiduciary standards. Single issuers are limited to 5% of the portfolio's aggregate market value at time of purchase, with the exception of U.S. government and agency securities and commingled funds. The underlying products that comprise a diversified portfolio may have exposure to derivatives which are managed and controlled.

Cash Flows

Contributions: The Institution expects to contribute $55.0 million to its pension plan in 2015.

7. Retiree Pension and Health Plans (continued)

Estimated future benefit payments: The Institution expects to pay the following benefit payments, which reflect expected future service, as appropriate:

	Pension Benefits	Postretirement Health
	(In Thousands)	
2015	$ 35,506	$ 5,406
2016	37,691	6,228
2017	40,604	7,128
2018	42,853	7,764
2019	45,046	8,468
2020 to 2024	260,956	49,472

8. Insurance Programs

MSKI, a domestic tax-exempt corporation, is the primary insurance company for certain insurable risks of the Institution. The primary coverages provided by MSKI to the Institution are health care professional liability, warranty coverage for covered health care equipment, terrorism and assumed coverage for workers' compensation, general liability and certain employee benefits of long-term disability and life insurance. The Institution's liability is limited, with catastrophic risk insured by commercial insurance carriers, or in the case of terrorism risk, by the U.S. Government under a formula established by Federal law.

Insurance reserves of MSKI represent estimated unpaid losses and loss adjustment expenses. Such amounts are established using management's estimates on the basis of claims records and independent actuarial reviews and include an amount for the adverse development of reported claims. Adjustments to the estimate of the liability for losses are reflected in earnings in the period in which the adjustment is determined. The insurance reserves are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may vary significantly from the amount provided. The estimated unpaid professional liability losses and loss adjustment expenses, including losses incurred but not reported at December 31, 2014 and 2013, were approximately $231.6 million and $220.8 million, respectively, and are recorded at the actuarially determined present value of approximately $205.0 million and $195.4 million, respectively, based on a discount rate of 4% for both years.

9. Operating Leases

The Institution leases certain facilities and equipment which are accounted for as operating leases. Total rent expense for operating leases aggregated approximately $32.3 million and $28.2 million for 2014 and 2013, respectively. The future minimum lease commitments for noncancelable leases in excess of one year are as follows (in thousands):

2015	$ 32,019
2016	32,410
2017	31,459
2018	30,334
2019	21,572
Thereafter	122,052
	$ 269,846

There are provisions in certain leases which provide for rent escalation for inflation and other items.

10. Grant Awards

The accompanying combined financial statements do not include amounts related to research grants (or portions thereof) that have been awarded to the Institute for which expenditures have not been incurred or cash has not been received. Such grant awards approximated $116.3 million and $97.2 million at December 31, 2014 and 2013, respectively.

11. Commitments and Contingencies

The Institution is involved in various litigation and claims that are not considered unusual given the complexity and size of the Institution’s business. Management believes that the ultimate resolution of these matters will not have a material impact on the Institution’s combined financial statements.

11. Commitments and Contingencies (continued)

The Institution recognizes a liability for the future cost of conditional asset retirement obligations, including building modifications and lease end costs. The Institution removes contained asbestos and any applicable radioactive materials from facilities as facilities are being repaired and/or replaced. The Institution has recorded the estimated liability for the cost of asbestos remediation and radiation decommissioning for the Institution's current plans for building modifications and lease end costs of approximately $35.0 million at December 31, 2014.

Supplementary Information and Reports of Independent Auditors

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Schedule of Expenditures of Federal Awards

Year Ended December 31, 2014

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number or Other Identification Number	Pass-through Identification Number	Federal Expenditures
Research and Development Cluster:			
U.S. Department of Health and Human Services:			
National Institutes of Health – Direct	93.RD		$ 121,900,870
National Institutes of Health – Pass-through Programs From:			
New York University – Environmental Health	93.113	P30-ES000260	45,884
Stonybrook University – Oral Diseases and Disorders Research	93.121	R01-DE023497	240,012
Columbia University – Mental Health Research Grants	93.242	R01-MH097062	16,231
Muzzy Lane Software – Drug Abuse and Addiction Research Programs	93.279	R42-DA029353	79,270
Rockefeller University – Trans-NIH Research Support	93.310	U19-CA179564 R01-GM104962	525,019
Cornell University Medical College – National Center for Advancing Translational Sciences	93.350	KL2-TR000458 UL1-TR000457	1,191,529
Yale University – Research Infrastructure Programs	93.351	R24-OD016474	248,563
University of California, San Diego – National Center for Research Resources	93.389	P41-RR031228	90,943
Baylor College – Cancer Cause and Prevention Research	93.393	R01-CA139020	121,443
Children’s Hospital of Los Angeles – Cancer Cause and Prevention Research	93.393	R01-CA137124	46,903
Cornell University Medical College – Cancer Cause and Prevention Research	93.393	R01-CA167824	110,633
Fox Chase Cancer Center – Cancer Cause and Prevention Research	93.393	R01-CA155347	13,367
Georgetown University – Cancer Cause and Prevention Research	93.393	R01-CA119769	122,132
Harvard University – Cancer Cause and Prevention Research	93.393	R01-CA175231	142,006
Health Research Incorporated – Cancer Cause and Prevention Research	93.393	R01-CA152425	29,174
Johns Hopkins University – Cancer Cause and Prevention Research	93.393	R01-CA154823	17,563
Massachusetts General Hospital – Cancer Cause and Prevention Research	93.393	R01-CA166147	93,760
Mayo Clinic – Cancer Cause and Prevention Research	93.393	R01-CA154537	194,024

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number or Other Identification Number	Pass-through Identification Number	Federal Expenditures
Research and Development Cluster (continued):			
U.S. Department of Health and Human Services (continued):			
National Institutes of Health – Pass-through Programs From (continued):			
Mount Sinai School of Medicine – Cancer Cause and Prevention Research	93.393	R01-CA164546	$ 18,606
New York University – Cancer Cause and Prevention Research	93.393	R01-CA162035 R03-CA142042	301,890
University of Michigan – Cancer Cause and Prevention Research	93.393	R01-CA152192 R01-CA163233	193,633
University of North Carolina – Cancer Cause and Prevention Research	93.393	R01-CA112243	104,076
University of Pennsylvania – Cancer Cause and Prevention Research	93.393	R01-CA151736	185,896
University of Rochester – Cancer Cause and Prevention Research	93.393	R01-CA157823	98,587
University of Southern California – Cancer Cause and Prevention Research	93.393	R01-CA172404	30,461
University of Utah – Cancer Cause and Prevention Research	93.393	R01-CA164944	21,534
Washington University – Cancer Cause and Prevention Research	93.393	R03-CA177775	18,735
Cold Spring Harbor Labs – Cancer Detection and Diagnosis Research	93.394	U01-CA168409	564,658
Columbia University – Cancer Detection and Diagnosis Research	93.394	U01-CA140207	115,222
Johns Hopkins University – Cancer Detection and Diagnosis Research	93.394	U24-CA160036	38,929
Rockefeller University – Cancer Detection and Diagnosis Research	93.394	R01-CA159227	55,550
Physical Sciences, Inc. – Cancer Detection and Diagnosis Research	93.394	R43-CA162561	16,607
Van Andel Research Institute – Cancer Detection and Diagnosis Research	93.394	U01-CA152653	143,518
Vanderbilt University – Cancer Detection and Diagnosis Research	93.394	R01-CA162477	219,739

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number or Other Identification Number	Pass-through Identification Number	Federal Expenditures
Research and Development Cluster (continued):			
U.S. Department of Health and Human Services (continued):			
National Institutes of Health – Pass-through Programs From (continued):			
Children's Hospital of Philadelphia – Cancer Treatment Research	93.395	U10-CA098543	$ 14,254
Cornell University Medical College – Cancer Treatment Research	93.395	R01-CA106370 R21-CA186981	35,722
Dana-Farber Cancer Institute – Cancer Treatment Research	93.395	R01-CA106370 P01-CA066996	120,022
Emmes Corporation – Cancer Treatment Research	93.395	U01-CA121947	152,367
Gynecologic Oncology Group – Cancer Treatment Research	93.395	27469-074	5,203
Johns Hopkins University – Cancer Treatment Research	93.395	U01-CA137443	24,532
Mabvax Therapeutics – Cancer Treatment Research	93.395	R44-CA153561	25,409
Montefiore Medical Center – Cancer Treatment Research	93.395	U01-CA180827	53,119
Mount Sinai School of Medicine – Cancer Treatment Research	93.395	P01-CA108671	59,329
NRG Oncology – Cancer Treatment Research	93.395	U10-CA180868	20,425
Pennsylvania State University – Cancer Treatment Research	93.395	P01-CA171983	90,116
Rensselaer Polytechnic Institute – Cancer Treatment Research	93.395	R01-CA148876	90,641
St. Jude Children's Research Hospital – Cancer Treatment Research	93.395	U01-CA081457 U24-CA055727	89,703
University of Medicine and Dentistry, New Jersey – Cancer Treatment Research	93.395	R01-CA085566 R01-CA140297 R01-CA127488	368,483
University of Pennsylvania – Cancer Treatment Research	93.395	R01-CA158301	421,118
University of Texas – Cancer Treatment Research	93.395	R01-CA154754	10,274
University of Virginia – Cancer Treatment Research	93.395	R01-CA142859	16,239

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number or Other Identification Number	Pass-through Identification Number	Federal Expenditures
Research and Development Cluster (continued):			
U.S. Department of Health and Human Services (continued):			
National Institutes of Health – Pass-through Programs From (continued):			
Vanderbilt University – Cancer Treatment Research	93.395	R01-CA121210	$ 17,387
Cold Spring Harbor Labs – Cancer Biology Research	93.396	P01-CA013106 U01-CA105388	857,305
Columbia University – Cancer Biology Research	93.396	P01-CA087497 R01-CA155226 R01-CA173083	360,526
Cornell University Medical College – Cancer Biology Research	93.396	R21-CA173348 U01-CA169538	501,968
Dana-Farber Cancer Institute – Cancer Biology Research	93.396	U01-CA105423	156,224
Fred Hutchinson Cancer Center – Cancer Biology Research	93.396	U01-CA105492 U01-CA141502	535,763
New York University – Cancer Biology Research	93.396	R01-CA169784	104,978
University of Massachusetts – Cancer Biology Research	93.396	R01-CA155784	21,959
University of Pennsylvania – Cancer Biology Research	93.396	P01-CA104838	210,956
University of Texas – Cancer Biology Research	93.396	P01-CA095616	30,833
Yale University – Cancer Biology Research	93.396	R01-CA120247	44,480
Dana-Farber Cancer Institute – Cancer Centers Support Grants	93.397	U54-CA143798	449,465
Fred Hutchinson Cancer Center – Cancer Centers Support Grants	93.397	U54-CA163167	462,553
Johns Hopkins University – Cancer Centers Support Grants	93.397	P50-CA058184 P50-CA062924	27,124
Kaiser Foundation Research Institute – Cancer Centers Support Grants	93.397	U54-CA163262	53,972
Northwestern University – Cancer Centers Support Grants	93.397	U54-CA143869	10,940
University of Southern California – Cancer Centers Support Grants	93.397	U54-CA143907	121,061
City of Hope – Cancer Research Manpower	93.398	R25-CA151077	59,653

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number or Other Identification Number	Pass-through Identification Number	Federal Expenditures
Research and Development Cluster (continued):			
U.S. Department of Health and Human Services (continued):			
National Institutes of Health – Pass-through Programs From (continued):			
Cornell University Medical College – Cancer Research Manpower	93.398	T32-CA062948	$ 323,039
H. Lee Moffitt Cancer Center – Cancer Research Manpower	93.398	R25-CA142519	11,749
Mount Sinai School of Medicine – Cancer Research Manpower	93.398	R25-CA138494	42,920
Yale University – Cancer Research Manpower	93.398	R25-CA177553	16,657
Johns Hopkins University – ARRA – Trans – NIH Recovery Act Research Support	ARRA 93.701	U01-CA137443 ARRA	5,726
Virginia Commonwealth University – Cardiovascular Diseases Research	93.837	R01-HL125353	24,073
University of Washington – Blood Diseases and Resources Research	93.839	P01-HL053750	455,549
Columbia University – Arthritis, Musculoskeletal and Skin Diseases Research	93.846	R01-AR054447	20,167
Cornell University Medical College – Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	P01-NS048120	263,971
Mclean Hospital – Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	U24-NS078338	109,468
Rockefeller University – Extramural Research Programs in the Neurosciences and Neurological Disorders	93.853	R01-NS072381	258,558
Ceramide – Allergy, Immunology and Transplantation Research	93.855	R43-AI102449 R43-AI106283	111,367
Cornell University Medical College – Allergy, Immunology and Transplantation Research	93.855	R01-AI064768 U19-AI111143	238,996
Duke University – Allergy, Immunology and Transplantation Research	93.855	UM1-AI100645	310,550
Feinstein Institute – Allergy, Immunology and Transplantation Research	93.855	R01-AI083901	24,713
Fred Hutchinson Cancer Center – Allergy, Immunology and Transplantation Research	93.855	U01-AI069197	271,154

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	Federal CFDA Number or Other Identification Number	Pass-through Identification Number	Federal Expenditures
Research and Development Cluster (continued):			
U.S. Department of Health and Human Services (continued):			
National Institutes of Health – Pass-through Programs From (continued):			
Oregon Health and Science University – Allergy, Immunology and Transplantation Research	93.855	U54-AI081680	$ 14,966
University of California, San Francisco – Allergy, Immunology and Transplantation Research	93.855	U54-AI082973	68,768
Mayo Clinic – Biomedical Research and Research Training	93.859	U01-GM061388	10,061
University of North Carolina – Biomedical Research and Research Training	93.859	P01-GM103723	190,678
City of Hope – Aging Research	93.866	R01-AG037037	9,402
Cornell University – NIH R&D	93.RD	HHSN26120120 0018I 12XS558	35,111
Leidos Biomedical Research, Inc. – NIH R&D	93.RD	HHSN26120080 0001E	388,863
Mitre Corporation – NIH R&D	93.RD	CMS 102039	13,742
Radiation Effects Research Foundation – NIH R&D	93.RD	HHSN27220090 0059C	167,092
University of Texas – NIH R&D	93.RD	N01CN035159	274,936
Total U.S. Department of Health and Human Services			136,643,346
U.S. Department of Defense:			
U.S. Army Medical Command – Direct – Military Medical Research and Development	12.420		11,427,987
U.S. Army Medical Command – Pass-through Programs From:			
Cornell University Medical College – Military Medical Research and Development	12.420	W81XWH-13-1-0427	82,297
H. Lee Moffitt Cancer Center – Military Medical Research and Development	12.420	W81XWH-12-1-0450	45,127
Johns Hopkins University – Military Medical Research and Development	12.420	W81XWH-11-2-0230	934,450
University of Texas – Military Medical Research and Development	12.420	W81XWH-13-1-0192	22,268
Total U.S. Department of Defense			12,512,129

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Schedule of Expenditures of Federal Awards (continued)

Federal Grantor/Pass-through Grantor/ Program or Cluster Title	**Federal CFDA Number or Other Identification Number**	**Pass-through Identification Number**	**Federal Expenditures**
Research and Development Cluster (continued):			
U.S. National Science Foundation – Direct – Education and Human Resources	47.076		$ 11,545
U.S. Department of Veterans Affairs – Direct – Veterans Affairs R&D	64.RD		5,124
Total Research and Development Cluster			149,172,144
U.S. Department of Homeland Security – Federal Emergency Management Agency – Pass-through Programs From:			
New York State Division of Homeland Security and Emergency Services – Disaster Grants – Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4020-DR-NY	163,000
Total U.S. Department of Homeland Security			163,000
Total Expenditures of Federal Awards			$ 149,335,144

See accompanying notes.

Notes to Schedule of Expenditures of Federal Awards

Year Ended December 31, 2014

1. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) for the year ended December 31, 2014, includes the federal grant activity of Memorial Sloan Kettering Cancer Center and Affiliated Corporations (the Institution), and is presented on the accrual basis of accounting. The information in the schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in the schedule may differ from amounts presented in, or used in the preparation of, the Institution's combined financial statements.

2. Subrecipients

Of the federal expenditures presented in the schedule, the Institution provided federal awards to subrecipients as follows:

Program Title	**Federal CFDA Number**	**Amount Provided to Subrecipients**
Research and Development Cluster	Various	$ 11,070,984

3. Disaster Grants – Public Assistance (Presidentially Declared Disasters) – CFDA 97.036

Awards for reimbursable expenditures involving the U.S. Department of Homeland Security-Federal Emergency Management Agency (FEMA) are reported by the Institution on the schedule in the year that FEMA approves the applicable Award Worksheet, pursuant to guidance issued by the U.S. Department of Homeland Security. Costs totaling approximately $163,000 incurred in 2013 were approved by FEMA in 2014 and are included on the accompanying schedule for the year ended December 31, 2014.

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Report of Independent Auditors on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Managers
Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

We have audited, in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Memorial Sloan Kettering Cancer Center and Affiliated Corporations (the Institution), which comprise the combined balance sheets as of December 31, 2014, and the related combined statements of unrestricted activities, changes in net assets, and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated April 24, 2015. Our report includes a reference to other auditors who audited the financial statements of MSK Insurance US, Inc., as described in our report on the Institution's combined financial statements. The financial statements of MSK Insurance US, Inc. were not audited in accordance with *Government Auditing Standards.*

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Institution's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Institution's internal control. Accordingly, we do not express an opinion on the effectiveness of the Institution's internal control.

A *deficiency in internal control exists* when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Institution's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Ernst + Young LLP

April 24, 2015

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Report of Independent Auditors on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133

Board of Managers
Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Report on Compliance for Each Major Federal Program

We have audited Memorial Sloan Kettering Cancer Center and Affiliated Corporations' (the Institution) compliance with the types of compliance requirements described in the US Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on the Institution's major federal program for the year ended December 31, 2014. The Institution's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Institution's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Institution's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Institution's compliance.

Building a better working world

Opinion on Each Major Federal Program

In our opinion, the Institution complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended December 31, 2014.

Report on Internal Control Over Compliance

Management of the Institution is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Institution's internal control over compliance with the types of requirements that could have a direct and material effect on its major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for its major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Institution's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Ernst & Young LLP

September 30, 2015

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Schedule of Findings and Questioned Costs

For the Year Ended December 31, 2014

Section I – Summary of Auditor's Results

Financial Statements Section

Type of auditor's report issued:	Unmodified, with reference to other auditors
Internal control over financial reporting:	
Material weakness(es) identified?	____ **Yes** X **No**
Significant deficiency(ies) identified?	____ **Yes** X **None Reported**
Noncompliance material to financial statements noted?	____ **Yes** X **No**

Federal Awards Section

Internal control over major federal programs:	
Material weakness(es) identified?	____ **Yes** X **No**
Significant deficiency(ies) identified?	____ **Yes** X **None Reported**
Type of auditor's report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	____ **Yes** X **No**

Section I – Summary of Auditor's Results (continued)

Identification of major federal programs:

CFDA number(s)	Name of federal program or cluster
Various	Research and Development Cluster

Dollar threshold used to distinguish
between Type A and Type B programs: $3,000,000

Auditee qualified as low-risk auditee? _____ **Yes** __X*__ **No**

*The Institution is not considered a low-risk auditee due to a late filing of the A-133 report for the year ended December 31, 2012.

Section II – Financial Statement Findings

This section identifies the significant deficiencies, material weaknesses, fraud, noncompliance with provisions of laws, regulations, contracts and grant agreements, and abuse related to the financial statements for which *Government Auditing Standards* require reporting in a Circular A-133 audit.

None noted.

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133 section .510(a) (for example, material weaknesses, significant deficiencies and material instances of noncompliance, including questioned costs), as well as any abuse findings involving federal awards that are material to a major program.

None noted.

Memorial Sloan Kettering Cancer Center
and Affiliated Corporations

Summary Schedule of Prior Audit Findings

For the Year Ended December 31, 2014

Finding Reference Number: 2013-01

Federal Program Information

U.S. Department of Health and Human Services
Research and Development Cluster – CFDA Number 93.396 – Cleveland Clinic Cancer Biology Research

Condition

Indirect costs are those costs that have been incurred for common or joint objectives and cannot be readily identified with a particular final cost objective. Indirect costs are those costs remaining after direct costs have been determined and assigned directly. Indirect cost percentages utilized are either specific to an organization based on a nonprofit rate agreement or specified within a grant or contract.

While performing our testing during the 2013 audit, we noted one exception in our testing where the Institution did not utilize the correct indirect cost rate, resulting in known questioned costs for the period.

Status

The audit finding was corrected in 2014 with use of the correct indirect cost rate.

Summary Schedule of Prior Audit Findings (continued)

Finding Reference Number: 2013-02

Federal Program Information

U.S. Department of Health and Human Services
Research and Development Cluster – CFDA Number 93.702 – National Center for Research Resources, Recovery Act Construction Support (reported as National Institutes of Health – Direct Awarded Under ARRA on the schedule of expenditures of federal awards)

Condition

ARRA-funded awards that involve construction, alteration, maintenance or repair are subject to the requirements of the Davis-Bacon Act. For ARRA funded construction awards in excess of $2,000, contractors and subcontractors are required to pay prevailing wage rates established by the Department of Labor, to laborers and mechanics in compliance with the Davis-Bacon Act. Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement that the contractor or subcontractor comply with the requirements of the Davis-Bacon Act. This includes a requirement of the contractor or subcontractor to submit to the non-Federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).

The Institution had an ARRA funded federal award involving the construction of a building and was therefore subject to the requirements of the Davis-Bacon Act.

When performing our testing over this compliance requirement in 2013, we tested the one federally funded construction contract. We noted that the required prevailing wage rate clauses were not included in the contract as required by the Davis-Bacon Act. Additionally, we noted the contractor did submit weekly payrolls, however, they did not include a statement of compliance.

Status

The audit finding was corrected in 2014 and appropriate language is now incorporated into all construction contracts.

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